An Empirical Study on the role of Insurance Sector of India in Risk Management

(with Special reference to Social Security Schemes)

SYNOPSIS

Submitted for the Degree of
Doctor of Philosophy
In Business Administration

BY
MANISH KALWANI

Under the Supervision of
Dr. SNEH SAXENA
Principal
Govt College, Pushkar

MAHARSHI DAYANAND SARASWATI UNIVERSITY
AJMER

MAHARSHI DAYANAND SARASWATI UNIVERSITY
AJMER

Format for outline of Proposed Research Work

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1. Name of scholar
   (In English) : MANISH KALWANI
   (In Hindi) : मनीष कलवानी

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   (with special reference to social security schemes)
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4. Introduction Importance of proposed Investigation : **Annexure-1**

5. Review of work already done on the Subject of proposed research study. : **Annexure-2**

6. Research gaps identified in the proposed field of investigation. : **Annexure-3**

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9. Research methodology : **Annexure-6**

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11. List of References Cited : **Annexure-8**

Name & Signature of Supervisor
With date

प्राचार्य
राजकीय महाविद्यालय,
पुष्कर (अजमेर)

मनीष कलवानी
Signature of Candidate
with date

4.Introduction :-

Insurance can be defined as a contract between two parties, where one promises the other to indemnify or make good any financial loss suffered by the latter (the insured) in consideration for an amount received by way of 'premium'. In other words, the party agreeing to pay for the losses is the 'insurer'. The party whose loss makes the 'insurer' pay the claim is the 'insured'.

Social security became a major area of concern in many countries of the world when society was slowly shifting from agro-based economy to an industrial economy. People started moving to cities from villages in order to satisfy their economic needs and to get some security. This change came about in Europe for the first time during the 19th century.

The subject of risk management does not have a long history. It is reported by Ben Hunt that "one of the earliest references to the term "risk management" was in 1956 in the US when it was used in a Harvard Business Review article.

4 (A). Importance of Insurance, Social Security Schemes and risk Management :-

A successful insurance sector is fundamental to every modern economy since it encourages the savings habit as well as provides a safety net to rural and urban enterprises and productive individuals.

A. Pooling and risk reduction :-

Pooling of losses means the spreading of losses incurred by the few over the entire group, so that in the process, average loss is substituted for actual loss.

B. Payment of accidental and unintentional losses:-

Insurance deals with covering of losses, which are accidental in nature. The insurer should cover all unexpected and unforeseen losses, which occurs at random.

C. Transferred risk :-

The contract of insurance is one where the risk of one party is transferred to the other, who is the insurer who is usually in a stronger position financially and can easily make good the loss of the insured.

D. Principle of indemnity:-

Indemnity merely means to make good any financial loss suffered by the insured and to put him or her back in the same financial position as he or she was before the occurrence of the loss.

E. Economic security:-

Economic security, which is a vital aspect of our society, can be defined, " as a state of mind or a sense of well being by which an individual is relatively certain that he or she can satisfy basic needs and wants, both present and future".

F. Cover all groups of our society:-

An Insurance is the factory which covers the all groups are society and provide a shelter against the unforeseen losses and mishappnings in our life.

G. Risk Management:

The business of managing risks is a very important exercise in any business and managing such risks in an economical manner is an end in economics. Contemporary economy is constrained by a variety of risks making the art and science of managing risks a fascinating and an intellectual assignment.

The Study also covers:-

A. Acturial Valuation:-

We know that during the early years of a policy the premium received by an insurance company surpasses the required amount due to the Level Annual Premium system. Thus there is collective excess, corresponding to the premiums of all the policies. This excess then constitutes a funds pool, which enables the company to, settle claims and meet deficit during years when the premium is not sufficient.

It now becomes essential to determine whether the premium accumulated is on the same lines as the calculated premium. This enables the company in determining its solvency. Thus the process by which the value of all the existing policies is ascertained is called **valuation.**

It is also called valuation of liabilities of the insurance company. And since the process of valuation is taken up by an 'actuary' by applying actuarial principles it is termed as **actuarial valuation.**

-The study aims at providing comprehensive knowledge about the valuation process followed by life insurance companies.

-It gives an insight into calculations involved in the valuation process and types of valuation.

-This chapter deals with the different types of actuarial risks that an insurance company faces, like assets risk, pricing risk, interest rate risk and miscellaneous risks.

-It deals with the types of surplus, methods employed for calculations and the different ways in which it is distributed.

B. Group Insurance:-

Many employees were aware of the economic security provided by insurance-oriented service benefits. The employers on the other hand also appreciated group insurance as an easy method of providing life insurance to the employees. Group insurance developed in India in the early 1960's. It is the coverage of many persons under one policy. Under group insurance, the insurer drafts a single policy known as a ***master policy*** for the insured group.

Under employee group insurance, the contract of insurance is between the insurer and employer. So it is the employer who pays the premium. Further it is the employer who can decide upon the members and the extent to which they shall be insured. The employer nominates employees for the pension scheme based on different criteria like their earnings potential, their seniority, age and post.

Employees have no say in choosing the extent of their cover. However, the employer while introducing the group insurance scheme for the first time may give an employee the option to join or not to join the scheme. This is necessary, especially when the employees have to contribute for the plan or forego another benefit in order to be covered under a group insurance plan.

Advantages of group insurance:-

Some of the advantages of group insurance are as follows:

-With group insurance, persons with less or no life insurance are also able to get some measure of insurance protection.

-Coverage is also available to those employees who are otherwise uninsurable.

-Life insurance companies can reach a vast number of clients at less cost within a short span of time.

-It is a tax effective tool. The employer gets tax relief for the premium paid by him on behalf of the employees. Employers are also entitled to tax relief for premiums paid by them if the scheme is partly contributory.

5. Review:- **(work already done on the subject of proposed research study.)**

No researcher can do justice with the research problem at hand unless one is having proper understanding of all its related aspects. This requires detailed study of available literature and deciding the framework of the research project to be undertaken.

In the present annexure the researcher has presented the review of literature. To glean the review from the relevant and the allied research study the researcher has referred the various committee reports, text books, thesis, dissertations, academic journals, dailies periodicals and manuals on Insurance, Social security schemes and Risk Management.

The literature reviews shows how the Insurance and Social security schemes beneficial to the society. How Insurance various Life insurance products useful to the Insurer. In Order to achieve this feat it becomes even more important to understand what kinds of Insurance Products and social security schemes available in life insurance and general insurance. Due to the scope and limited constraint, this academic research is enable to through the light on all the insurance products and social security schemes available to insurer.

The literature review also attempts to focus on the various group insurance schemes and acturial valuation because both are plays vital role for advancement and improvement for the insurance sector. The review also focuses on drawings the readers' attention towards the risk exposures of various sectors in India and how to manage those risks with various insurance products and social security schemes.

Review of Literature:-

Sudaryono Sastrosasmita and A.T.M. Nurul Amin **(1990)1** in their case study on ―Housing needs of informal sector workers: The case of Yogyakarta, Indonesia‖ stated that the aims to demonstrate the need for specifically targeted housing schemes for informal sector workers. It argues that a lack of individual affordability is not the universally applicable constraint for housing these workers, what is universal is the official unwillingness to accept informal sector employment as reliable collateral for access to the institutionally provided hosing: overall findings suggest that provision of an official housing programme for the informal sector workers is desirables and supportable.

According to an observation made by ***UNCTAD*** in **(1993)** the opening of markets to foreign companies would hardly bring about better services and/or prices for domestic consumers, as in smaller insurance markets there is a high probability that strong foreign insurers may enjoy a dominant market position. The initial low premium rates offered to penetrate the market may soon give way to oligopolistic or monopolistic pricing, and consumers may not be 13 better than before.

Mishra and ***Das*** **(1977)** highlighted that insurance is an essential service, which a welfare State must provide to its people and the State must assure the responsibility of rendering this service to one and all.

Menno Pradhan and Authur Van Soest (1995) in their study on —Formal and informal sector employment in urban areas of Bolivia|| the earnings and labour market participation in urban areas of Bolivia are analyzed, using household level survey data from 1989. They bring out that it is essential to distinguish between non-participation, formal sector work, and informal sector work, and estimate separate wage equations for informal and formal sector. wages are higher in larger local labour markets. In both sectors females of ethnic minorities are underpaid.

Anuroop Singh(2000) pointed out that "Experience in Life Insurance business in other markets has shown that actual investment in a three to five year span is normally at least twice the initial equity".

Anurag (2000) suggested that life insurance products could become source of long-term contractual savings.

With regards to regulation of insurance sector ***Ansari*** (2000) observed that the regulatory approach being charted out is forward looking consultative, consistent and inline with international best practices.

Sonig (2001) has observed that many developing countries also fear that subsidiaries of foreign companies may transfer much of the premium income back to their head-quarters, a fear which was an important motive for the establishment of domestic companies.

Meder (2001) observed that deregulation will make the insurance market too competitive, resulting in rates that may not be sustainable.

Bodla and ***Garg*** (2003) in their work on insurance procedures identified the problems of insurance companies in settling the death claim.

Palande and ***Shah*** (2003) gave the overall problems relating to early claim settlement by LIC of India.

Usha (2004) observed that under the Section 64 UMH of Insurance Act 1938, IRDA has been conferred the power to direct payment of claims.

But, the IRDA's, power to adjudicate has very limited scope. She felt, there is a need to establish a full-fledged grievance redressal at the Centre as well as the States to look into the problem.

Sandhya Rani Mahapatra and *Sovan Kumar Patnaik* (2007) observed that through the investment the LIC has been providing solid support to social sector activities like housing, electrification, drinking water etc.

1.**Sudaryono Sastrosasmita** and A.T.M. Nurul Amin, —Housing needs of informal sector workers: The case of Yogyakarta, Indonesia‖, Habitat International, Vol. 14, issue 4, 1990, pp.75-88.

2 Menno Pradhan and Authur Van Soest, —Formal and informal sector employment in urban areas of Bolivia‖, Labour Econo. The latest threat to human lives is the use of a biological weapon, anthrax, that has alarmed the whole world, particular U.S.A. and India. To drive home the gravity of the situation, it has to be mentioned that the Supreme Court in U.S.A. closed down for anthrax testing on October 27th 2015.

So this context of era the Insurance companies manage our risk of our daily routine life through various insurance schemes.

6. Research gaps identified in the proposed field of investigation.

(Based on the review):-

After reviewing the literature I found the new area of research That how Insurance and social security Schemes is beneficial to develop the components of social sectors like education, health, electricity, water supply development etc, in India. The role of Insurance in the economic development like, capital formation, contribution to GDP, investment pattern etc has also been covered. In addition the analysis of the various social security schemes like Personal accident social security, workmen's compensation, payment of gratuity and unemployment insurance. The study also covers the new area/subject of Insurance is acturial valuation. This study attempts to focus and analysis that how acturial valuation helpful to measure the risk in life and General insurance. This research work also focuses on drawings the readers attention towards various risk exposers of various sector in India like steel, automobile, casting , shipping, Textiles, banks and IT-software. And the suggestive solutions for the risk exposures/management also come within the scope of the work.

7. Objectives of the study:-

1. To regulate insurance on scientific basis.
2. To achieve the goal of the socialististic pattern of society.
3. To analyze the contribution of Insurance in social sector development in India.
4. To examine the growth and diversity of Insurance during the period of Study.
5. To make an appraisal of different insurance plans undertaken by various insurance sector in order to benefit the people living below poverty line.
6. To study the important provisions of Insurance in view of the socio-economic development of the people.

A. Objectives of Insurance:-

Any kind of loss due to death or disability of the earning member or the breadwinner leads to a decrease or termination of regular income besides any future income that he would have been able to earn, had normal circumstances prevailed. The main function of life insurance is to provide protection to the family, by ensuring continuity in income even after the death of the breadwinner.

1. To Provide Financial Security :-

Life insurance makes the family financially secure after the untimely death of the Breadwinner. Life insurance helps in meeting responsibilities of people even after death like higher education of children, their marriages, etc.

2. To Provides old age benefits:-

Insurance also provides old age benefits, which can be had in the form of annuities or a lump sum after retirement. This concept received wide acceptance and it is quite different from the earlier held view that life insurance meant only payment of a certain amount on death arbitrarily determined at the time of insurance without regard to the need of dependants.

3. To Provide Financial security to Creditors:-

Creditors can also use it in case the debtor dies without repaying the loan amount by getting the lives of the debtors insured, where the policy money or the sum assured will belong to the creditor in case of non-repayment.

B. Objectives of Social Security Schemes:-

In India social security is still in the early stage of development while in reality a large number of people are in need of social security support. Since the number of people involved who need social security support is huge, finding resources is the major issue for the government. However the government has made a beginning by affording some form of social security to these people through social insurance.

1. To Provide Workmen security to the workers:-

Through the Social Security Schemes the Insurance Covering employees who have suffered from accidents and disease arising out of the job To protect the income of the employee To provide medical care and other services.

2.To Provide Disability Income to workers:-

If a disabled worker satisfies the waiting period covering three to seven days, then he will be eligible for the disability income benefit. The benefits are paid on a weekly basis keeping in mind the wage of the worker.

3. To Provide Death Benefits to the Workers:-

Applicable to the survivors (employees family members), in case the employee dies while performing his duty. The benefit can be paid either through burial allowance or through weekly benefit scheme. It can be paid to the child and spouse depending upon the situation.

C. Objectives of Risk Management:-

The business of managing risks is a very important exercise in any business and managing such risks in an economical manner is an end in economics. Contemporary economy is constrained by a variety of risks making the art and science of managing risks a fascinating and an intellectual assignment. Modern day economics makes imperial demands on the businessmen to manage multiple risks in a business and to do it in a cost effective manner.

1. RISK IDENTIFICATION:-

The most important element of and the second step in the risk management process is the identification of risks and exposures to loss. This involves a systematic and careful analysis of all major and minor potential loss exposures. An essential prerequisite for a conscious choice of appropriate and efficient methods for dealing with losses if they occur is the recognition of all sources of possible losses.

2. EVALUATION OF POTENTIAL LOSSES:-

Subsequent to identification of risk, the next step in the risk management process relates to analyzing, evaluating and measuring the impact of losses on the individual or corporate unit by estimating the potential frequency and severity of losses.

3. SELECTION OF APPROPRIATE TECHNIQUES FOR TREATING LOSS EXPOSURES:-

The next step in the process of risk management lies in selecting the appropriate techniques for managing the loss exposures. The techniques are broadly classified as follows:-

(i) **Risk Control**

(ii) **Risk Financing**

(iii) **Risk Retention**

4. Selection of appropriate methods for handling losses:-

for the purpose of selection of the method for handling losses, both severity and frequency of loss have to be considered.

8. Major Hypothesis :-

The study proposes to verify the following hypothetical prepositions:

1. In a country like India insurance sector develops as saving channels that can produce very large amount for the developmental programs of the country.

2. Since life insurance sector has life long contacts with people, it acts as a tool to mobilize savings; functions as financial intermediary and at time also indulge in direct investment.

3. In developing economies life insurance sector plays an important role in supplying the funds for relatively larger projects.

4. In a country like India existing social security schemes are not fulfilling the need of society.

5. There are no efficient risk mitigating methods available to handling the various risks of sectors like Textiles, banks, I.T and shipping Industry.

9. Research Methodology:-

There is significant relationship between qualification of policy holders and awareness of the terms and conditions of the policy that they have taken. I try to find out the problems of various types of Insurers and Insurance Companies. And find out the lacuna in various types of social security schemes that why they are not mitigating the risk and not provide the social security to society in a proper manner. Research Keeping in view the above mentioned scope of the study, census technique is not to used.

The Systematic, Cluster and Stratified Sampling Techniques are used. The study depends upon Primary as well as secondary data.

A. **Source of Primary Data:-** Primary data is to be collected from below mentioned various cadres of officers, employees, agents and various types of insurers of Life Insurance Corporation and General Insurance Corporation of cities.

-Officers:-

1. Marketing Manager
2. Manager Sales
3. Assistant Branch Manager (Sales)
4. Adminstrative Officer
5. Assistant Administrative Officer

6. Development Officer
7. Enforcement Officer of Provident Fund
8. Acturary.

-Employees:-

1. Higher Grade Assistant
2. Assistant

-Agents:-

1. Corporate Level Agents
2. Chief Life Insurance Agents
3. Chairman Club level Agents.

Medium of collection of data:-

1. Personal Interview
2. E-mail i.d
3. Telephonic Interview/questionnaire
4. Surveys
5. Video calling

(B) Source of Secondary Data:- as published elsewhere either in the form of book or in the form of articles published in the journals of a variety of professional bodies like:-IRDA, LIC of India, National Insurance, Oriental Insurance, SBI Life Insurance, United Insurance of India, New

India Insurance. Research Papers read at these professional bodies and made available to public at large would also be cover red. It would, however, be endeavored to cover primary data to a limited extent. At last the ambit of the study upon Social security schemes and risk management as a special matter of interest.

10. Chapter wise details of Proposed Research:-

1. Introduction to Insurance
2. The Fundamental Legal Principles of Insurance
3. Life Insurance Products
4. Social Security Schemes
   A. Life Insurance
   B. General Insurance
5. Group Insurance
6. Acturial Valuation
7. Reinsurance
8. Risk Management
9. Risk Exposures to Various Sectors in India.
   A. Steel
   B. Automobile
   C. Textile
   D. Banks
   E. IT-Software.
10. Suggestive Solutions for Risk Exposures.

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मनीष कलवानी

Signature of the Candidate with date

Outline Approved.

Name and Signature of Supervisor with date & Seal.

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Dr. Sneh Saxena

प्राचार्य
राजकीय महाविद्यालय,
पुष्कर (अजमेर)

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